WORKSHOP

STATE OF CALIFORNIA

INTEGRATED WASTE MANAGEMENT BOARD

SPECIAL WASTE AND MARKET DEVELOPMENT COMMITTEE

JOE SERNA, JR., CALEPA BUILDING

1001 I STREET

2ND FLOOR

COASTAL HEARING ROOM

SACRAMENTO, CALIFORNIA

TUESDAY, AUGUST 13, 2002

1:30 P.M.

JAMES F. PETERS, CSR, RPR
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APPEARANCES

COMMITTEE MEMBERS

Steven R. Jones, Chairperson

Dan Eaton

STAFF

Patty Wohl, Deputy Director

Jim La Tanner

PANEL

John Davis, Administrator, Mojave Desert

David Huerta, Southern Alameda RMDZ

Leslie Kline, RMDZ Administrator

Steve Lautze, Oakland/Berkeley RMDZ Coordinator

PROCEEDINGS

CHAIRPERSON JONES: Ladies and gentlemen, mostly Board staff actually. Okay, here's one more.

We've got John Davis just came. And we have Steve and we've got -- how are you?

FRESNO COUNTY RMDZ COORDINATOR KLINE: Fine, thank you.

CHAIRPERSON JONES: Good.

Okay. This is our opportunity to get some input from the ZA's on the Milken report. We wanted to -- staff and the Board wanted to make sure that we have this dialogue as soon as we could. And I think some of you were here yesterday and heard the meat of the Milken report.

So Mr. Eaton and I are going to be here. Mr. Eaton does have and engagement that he has squeezed this in. So he may be leaving. And I'll stay as long as I have to.

(Laughter.)

CHAIRPERSON JONES: Maybe we ought to -- well, I'll turn it over to Mr. Eaton.

COMMITTEE MEMBER EATON: And I thank you all for coming today. But I think it's really important for everyone to understand that we at the Board just -- I got the Milken report. No decisions have been made with regard to any avenues. And I know yesterday a few of the speakers mentioned the fact they had just gotten it and hadn't had a chance, and they were going to go to sleep with it. Sleep with it for a week before they had any comments. And I think that that's really important today, to get -- if you have any preliminary thoughts or observations, to get those out on the table, and then -- I don't remember what the timing was, for those individuals who may or may not have been here yesterday, and there may be a few. I thought the timing was going to come back -- September or October that the report was going to come back for some preliminary --

DEPUTY DIRECTOR WOHL: Right. We're hoping September. But I guess it's based on the comments. And then we had to move up Committee, you know, a week. Board items are due a week earlier now because of the NRC conference. So that's a little bit of a time --

COMMITTEE MEMBER EATON: Please try to keep your personal problems out of this Board's business here.

DEPUTY DIRECTOR WOHL: Okay. I love NRC.

So we're shooting for September. But depending on this meeting and comments maybe.

COMMITTEE MEMBER EATON: Okay. So that would the timeframe -- september would be the initial presentation. And then probably some rework in maybe October or

November, for whatever it might be, depending upon the schedule?

DEPUTY DIRECTOR WOHL: Yes.

COMMITTEE MEMBER EATON: Okay. That's it right now.

DEPUTY DIRECTOR WOHL: Okay. Then what I thought we'd do is have Jim just briefly just kind of put a slide up and give everyone an idea of the four items. And then from there we'll just turn it over to the ZA's, and they each have some comments and questions. If we can't answer the questions, we'll try to get back to them on those. Otherwise we'll take their comments.

So let's turn it over to Jim first -- Jim La Tanner.

MR. La TANNER: Okay. This first slide I took out of my agenda item. And what I did is I went through the Milken report. And we came down to four leveraging options. And I'm trying to condense it all down into just one table.

The first column, Number 1 up there. What they're proposing is a new market tax credit. And what Milken sort of did was they came up with who has the money, is what we're really starting to look at. Who's got the money that can be used for lending to recycling businesses? Not necessarily how, but who.

The Federal Treasury has a new program called the new market tax credit. It's just beginning. Nobody's received the money yet.

The way that's going to work is the Federal Treasury would make tax credits available for private individuals that want to make an investment in a for-profit community development entity. Now, in California there's a handful of them. And my staff's calling all of them right now to find out what their niche is. But it has to be a for-profit entity.

The money is in the -- it's individual taxpayers, would put money into a CDE, and then in return get a tax break over seven years.

This leveraging option does not put funds in the subaccount. Rather it takes money out of the subaccount, we'd invest it in the CDE, and they would make loans to recycling businesses.

Milken goes a step further to identify the types of loans under each of the leveraging options. This option here -- a CDE actually gets their money from banks and foundations, low interest. And there's award credits and CRA credits that allow them to participate in. And then they get something back in return.

We did talk briefly to Milken about actually putting the money into the subaccount. And there's no return or incentive for the foundations or banks to do that. But there is through the Federal Treasury program.

These loans under the new market tax credit strategy are to early stage and expansion companies. It's more the riskier borrowers. They get their money at low-interest loans that can offer lower interest rates. And they're not regulated by like a bank is and more flexibility at actually making loans.

The type of loan would be subordinate, usually a second, third position. They're also proposing that some of the loans are made with deferred payment, where you could do a five-year loan with no payments and one balloon or you skip half the payments at the start and come in at the rest.

We did find out, however, the loans are still made at a market rate of interest. Although the monies invested in these companies are below market rates, they charge market rate, and the spread covers the operations.

The second source that they came up with is called Equity Equivalent Program and program related CDFI's. Both the CDE and CDFI are certifications from the Federal Treasury. This is banks and foundations and similar type of loans.

Both -- if you have CDFI certification, then you're also a CDE. But most CDE's are nonprofit, but they're all forming for profits. Those two are pretty closely related.

The new market tax credit, as Victor Hoskins mentioned yesterday, it's a long shot. It's a brand new program. There's 15 billion available over a 7-year period. And nobody really knows how the Federal Treasury's going to allocate the money to all the CDE's throughout the United States.

The good part about it is, the third leveraging option is the loan guarantee program. That looks at using trade and commerce's state loan guarantee program in existence. There's a 11 centers in the State, and then there's three satellites. They have been up and running for a long time. They routinely make loans to for-profit businesses that are nonbankable. They're the closest match to us right now.

So far three of those FDC's, probably four, have applied for and received CDE and CDFI certification. So you contract or, you know, invest money in one entity and achieve three of the leveraging options up at the start.

In talking with the loan guarantee folks over at trade and commerce, there's two ways to do that. One is to just work with trade and commerce. And the other is to just solicit some of the 11 FDC's that actually want to participate with us. Some do and some don't. Depends upon what their market niche is.

But the loan guarantee strategy is, if we put, say, a million dollars in the expansion fund over there and they can make four million in loans or more. They're anxious for us to actually participate with them. They're pretty maxed out on issuing guarantees with the funds they have available because the Legislature took some. They had the child care program they just got about a year ago from the Business Department. But then some of that money got pulled. So they're looking -- are very receptive to us doing this.

They would do recycling businesses. They could adhere to project eligibility. They like the zone system because it overlaps the trade and commerce enterprise zones. With that, the money -- I would solicit bids from the 11, see who wants to participate, as opposed to going through trade and commerce, which would take an overhead cut out of what we put into the fund.

Their success rate's been pretty good.

Their loan defaults is less than one percent. They have about the same default rate we do, which is only really or one or two loans. Actually one we've charged off and one that's going to get there some day at that point.

Then the fourth leveraging option. Milken focused on a loan sale. And the context of their report is called a RAF's program, where the Board and another lender jointly fund a loan; and then the Board buys that portion back, turns around and sells it. To me that -- personally that's too complicated. There's much easier ways to do it.

What we asked them to go back on then, didn't get too much additional research on, was doing a bulk loan sale. So what we did was I worked with Community Reinvestment Fund and put some figures into the agenda item as to what it would look like at a loan sale. And we're going to try and expand on that for the September board meeting.

Community Reinvestment Fund is the easiest one and the most widely known entity that buys loans that we're aware of that's similar purpose for us.

CRF basically is funded by private individuals and other institutions that want a higher return than stocks. But with CRF -- and I'll just use them as an example, okay -- we're not going to go out and just pick CRF. We have to go out and RFQ, solicit bids from anyone that wants to buy it, and then may the best package win. But CRF, they're in town also.

CRF's proposing one of two things. They'd like to do another loan set just like the first one. The figures to me look exactly the same as the last one. I don't see any difference. Even though our interest rate's a little bit higher, it looks all pretty much like the same figures.

We can go through our portfolio of loans, and we could pick out which ones they'd probably buy. And I could tell you which ones I don't want to sell because I don't want any defaults on this one either.

So there's the bulk sale.

Then there's another program that they have in place already now called an individual loan sale, whereby we would process a loan request, as we do now. We'd run it through the Board, have the borrower print an escrow account as we normally do; except the difference would be, instead of the Board funding the loans, CRF would fund the loan, take ownership of it.

What's negotiable there is who's going to service the loan after they buy it? Right now CRF would have to service it and collect it, in which case the discount might be a little bit more. Or if we were able to service it, we'd need to change staff just to do that, and then the borrower could get a lower interest rate.

That's roughly the four in context. We're only as far along with this leveraging as pretty much that table shows. What was discussed at Committee yesterday, which would be appropriate to put into the September agenda item, is how much money would a loan sale yield. One would come back to the Board, how much money do you need to put into each one of the leveraging options. And we're going to try and incorporate that into the September agenda item.

If you want to know risk on these deals, the easiest one is probably the loan sale, either a bulk or individual. Although it will take some time to consummate, that's the easiest one to do. We've been down that road before. You get a check. And I would probably pursue both. Let them buy a bulk sale of loans right now; and also going forward new loans would make, just buy them on an individual basis.

The second easiest one would be the loan guarantee. The catch with that is we need to do regulations, because we need to establish a separate independent small business expansion fund to put the Board's money into. We cannot put our money into their existing expansion fund because then there's nothing to preclude them from making a loan to another type of business. If we want recycling only, we need regs and a separate expansion fund. But they're open to this.

And then the harder ones to implement, that are doable, is the first and second, new market tax credit and then the EQ2 PRI.

During roughly ten days, between now and the deadline, to get the next agenda item written and in the BODs.

And what we're doing is calling the CDE's and CDFI's in the state -- in California and narrowing the list down as to who's interested and how. And we're getting a pretty good mixed response. A lot of the entities right now do housing loans. They don't want to expand. The one in West Sacramento likes lending to public entities and tribes; they're interested in this also. And they cover like five or six states.

Some of them -- one that we talked to said that they like to partner with jointly fund loans and they don't want any of money. They have a big enough pool anyway. What we could do or try and do -- pardon?

CHAIRPERSON JONES: Say that again.

MR. La TANNER: One of the entities has sufficient funds and they're offering to just jointly fund loans without us investing any money into their unit. Instead of us doing 75 percent and a bank doing 25, maybe they can do 75 percent an we'll do 25, see.

CHAIRPERSON JONES: Okay. I just didn't hear you.

MR. La TANNER: Actually in all of these options what's coming to reality is none of these options are below market rate. And market rate of interest is a good question. And there's several definitions of market rate. Some people think market rate is prime. Generally prime rate is what the banks offer to their top best-qualified customers that usually have a good lending history and money in the bank.

We've been lending at the SMIF rate, which has been, except for a two-month period after September 11th, been below prime.

Most of our borrowers when they get matching funds from a bank, their rate's more than twice what we have. It's prime plus 2, prime plus 3. That's what most of these options are.

But I would like to make one point that's open for discussion and also controversy at the time same, is this loan program can't continue and become sustainable if we're only going to charge 2.9 percent. I went through our projections and cut the interest earnings in half over the next three years, and that took a million bucks out of the kitty.

The borrowers that we've talked to and made loans to in the last two years pretty much would have accepted the loan if we had charged like the prime rate instead of Smith.

One borrower however, Fire and Light up on the coast, said that they needed that below-market rate to get a larger loan to buy a facility that was an adequate size for them to do an expand -- and it's probably not the only case. There's probably others like that.

But Kroeker, Inc., the Board recently approved, had the Board not approved that loan, they had backup financing from a finance company at 6.25 percent.

But at some point in the future I'd like to bring up a discussion to charging something other than SMIF rate. And there's many ways to do that, and that's whole other can of worms.

So at this point I'd like to open it up for questions from the ZA's.

CHAIRPERSON JONES: We have the benefit that the folks that are here from the zones were in the working group all the way along, so they're understanding of all of the issues that are driving this.

But I hope that at the Board meeting -- now, are you guys making a presentation -- you're not making a presentation this month. You're going to make the presentation next month so that we can start coming up with options, right, or start preparing to come up with solutions?

DEPUTY DIRECTOR WOHL: Well, I think we're going to try and bring an item forward to the Board in September. And then either at that you can say, you know, "We want you to further investigate" these four or these two or this one. And then we would probably have to bring an item back that gave you the very specifics of that particular solution.

CHAIRPERSON JONES: Okay. So I think that it would be important to put into context sort of a little bit of the history of why we even did this program. I mean most of the members voted to go down this path. But this will help reiterate what the issues were, the funding issues. Because I think it's going to be pretty critical to do some pro formas of what these different options are going to have based on if we keep going at the status quo. If we do a loan sale and that enables to us do certain things, if we do a partial loan sale -- you know what I mean -- so that there is a menu that can be extrapolated to understand what that dollar -- what those dollars are, the availability of dollars.

And then I think that one option when we talked about finding the foundations and those kinds of things, that may want to look at this to put in their environmental portfolio. Is something that really -- probably isn't easy to look at. But I think that they had identified a couple of potential ones that have done some past lending. And maybe there's some avenues to get into others that we may not even suspect. I mean I don't know what the Getty Foundation -- you know, what their sort of, you know, direction is. But there's some foundation -- there's a one foundation that I don't think we can touch because it's for those two counties, that one that you and I visited up in -- you got us the invitation -- in Redding.

COMMITTEE MEMBER EATON: McConnell foundation, I believe.

CHAIRPERSON JONES: McConnell. That's one that they only concentrate in their two counties. But it was a family that left it to this foundation to do things for the communities.

And hopefully we could, you know -- you got some pretty smart folks behind you there. And, you know, helpfully they could, you know, start rustling some bushes to see if anybody -- you know, if there is interest. Because it would be nice to divide -- it would be nice to know where we could divide our money, because it's going to be dependent on, you know -- what do we have left, 8 million or something? We got 8 million left?

MR. La TANNER: There's more than that.

CHAIRPERSON JONES: Little more than that?

MR. La TANNER: I have a slide if we want to get into that.

CHAIRPERSON JONES: So whatever we have left, here's what we can do. And if we do this, here's what -- you know, and because like what Mr. Eaton had asked you yesterday during the agenda item: Where's the risk for the Board and where's the risk for the taxpayer dollars? you know. And so I think that was a pretty critical question to ask, you know. So I think we need to sort of look at some of those things.

But I'll tell you, I was -- I know it took a lot of work to get the Milken Group to put together a product that you could deliver to this Board. But it was -- I enjoyed yesterday.

MR. La TANNER: Yeah, what's not in the Milken report is -- although they identified several foundations, they only identified them by name. They did not contact any of those foundations to ask them if they're interested in leveraging with us or if they have an environmental purpose or not.

CHAIRPERSON JONES: Okay. And then just one other quick question. Aren't we in a loan guarantee program with somebody right now? Didn't we put a million bucks aside?

MR. La TANNER: We have an interagency agreement with the Treasurer's office and have $500,000 at their

California Capital Access Program, whereby if a borrower applies to a bank for a loan; and the loan bank says, "Well, we'll make the loan, but you need to buy loan default insurance from the Treasurer's office. This will offset their premium." We've been into that roughly for two years now. The sad news is there's only been two businesses that have actually taken advantage of that. We did just extend the contract because -- you can use that in combination with some of these leveraging plans.

CHAIRPERSON JONES: Right. And that's what I'm saying. So we have some history where people that were not bankable, right, were able to get a loan because we were able to guarantee with our money. So we've got some past history. And that'd be nice if we could just get a little tiny explanation of when that was used. Or -- I don't even know -- maybe you can't tell us who the people were.

MR. La TANNER: I know.

CHAIRPERSON JONES: But whatever.

COMMITTEE MEMBER EATON: I want to here from the zone administrators. But, just quickly, the column or primary type of financing, if we start from right going to loan sale, senior debt means we're primary on that, we get -- that's almost a direct relationship?

MR. La TANNER: Yeah, senior debt is basically we're the first -- in first place on collateral.

COMMITTEE MEMBER EATON: Right. And then the subordinate debt, that trade and commerce or whomever, they would have the first position, we would have a subordinate position?

MR. La TANNER: We'd be in second.

COMMITTEE MEMBER EATON: Okay. But just for clarity, because it is a public meeting. I mean I want to kind of just go through that.

And the equity position, obviously we gain equity in the project, would that not be the case?

MR. La TANNER: It's a loan to the company. But it's a loan structure with no payments and no balloon. It's not quite an equity injection. It's a loan. But it's well beyond third or fourth position, with deferred payments the first several years. There's --

COMMITTEE MEMBER EATON: And equity, and then subordinate to that I see for the tax credit. I just want the kind of layout those because things flow from that. And I think all of you in the zones know that. But that -- I'd like to hear from you, especially -- can you go out and under any of these three or four schemes, what are you hearing? What -- you know, you always have talked to me at least in the individual meetings about what you need to get your job done to market these things. Are they just loans, direct loans? Or are they new start-up businesses, which are the primary types of recycling companies? So that would help guide the Board to some degree, because there's complications within each of those.

MR. DAVIS: I'll start it off, I guess.

John Davis. And I'm the Administrator for the Mojave Desert Recycling.

Both Leslie and Steve, myself, we're all on the -- in fact we're three of the four officers for the California Association of Recycling Market Development Zones. So a couple years ago when your Board formed a working group, the Association decided that the representation should be the officers. So Jim Pool was there along with the three of us. And we -- so we held a series of meetings.

We hold monthly conference calls, and then on about a quarterly schedule we get together at the zone trainings that have been going on, so -- and we typically hold at least a half-day meeting and some cases even longer meetings. So we talk about the sort of thing that you're talking about. We started a strategic plan process about a year ago to try to come to grips with what is -- what would we like to see out of the program.

And we're actually -- we got a draft of a strategic plan and then decided, well, maybe that didn't quite capture it. And we're back now trying to do a more comprehensive strategic plan and answer the sorts of questions that Mr. Eaton just asked.

I could tell you my experience, but I'm not sure that I could generalize or say with much confidence how it happens in those zones that are active. And we always draw a distinction between the zones -- the 40 zones and those zones that come to the training, respond to your staff, respond to our inquiries. I spent three months trying to contact a zone in my area when we first organized. And come to find out that I was calling a number that let me leave a message for somebody who had left six months earlier who was still listed as, you know, the contact for the zones. And so I -- you know, I know how difficult it is on your side. We don't spend a whole lot of time trying to track those zones.

And we work with the zones that are active. I would say that, you know, in my case I get people who are looking for a grant, you know. A lot of people -- in my experience over the last 30 years is that a lot of people come to local government economic development looking for a grant because it's public. They hear about these grants. And I always treat them just as I would a -- you know, a prime borrower and ask them what do they want to do, how are they going to do it, kind of do some reality check, and ask for a business plan and, you know, some statement about what they're objectives are. If they don't have a business plan, then I refer them to somebody who can help them develop a business plan. And probably in 90 percent of the cases that's the end of the discussion that I have with them.

So you get people like that who hear about this program and think it's a give away. You're not going to see them here. You're probably not going to see them at the Board unless they -- unless they're coming with a project that really does need support. And then we'll try to help them or we'll steer them to one of your sources. I had a lot of tire projects two years ago, and I think it all had to do with the fire. Everybody was -- it was a big topic. Just like a year ago it was all conversion technologies and alternative energy plans. I'm dealing with a lot of electronic -- ideas for a electronic waste right now. And I don't know what next year will bring, but it'll be something different.

But, you know, out of all that you hope that you get, you know, one or two that can come forward.

My experience -- and I spent the first 15 years of my career working on redevelopment, economic development and community development. And I structured a countywide -- in an urban county a countywide economic development strategy and financing program. And we didn't say, you know, what is the one thing that we're going to do. We said what are the things that we have to do and what tools do we have to do it with.

I would say that, you know, looking at the primary type of financing gives you an idea of which borrowers you're going to be serving. And recognizing that people have different needs, that in some cases that subordinate debt is good enough, or it may be just what they need.

I had a project that probably needed that. The fella had some personal credit history. And, you know, he had some orders or very strong potential orders for a product. And so once we found out about his credit problem, we tried to direct him more into an SBA sort of loan guarantee program. So I could have seen in that case, had we had a loan guarantee that was easily accessible here, I could see that working. But the Cal Cap Program I don't think was available at the time. And he may not have been the appropriate person even in that case.

But if you say we've got one instrument, then you've got one target, and you're going to miss certain opportunities. It certainly -- you know, if you have 15 instruments, you increase the complexity of what you're doing to the point that it's totally confusing.

So I think the CARMDZ suggested doing the loan sale because that would replenish the money, that would keep the fund active. Remember, this discussion started really in 2000. And I think our support for that approach is on the record. And I've heard nothing to suggest that anything has really changed there. I think we look at it and say that's fairly common in the financing industry. My mortgage -- the bank that I took my mortgage out didn't hold that mortgage for very long. They sold it and gave a mortgage to my neighbor. And so to the extent that it's a proven way to do it, and the suggestion comes back -- I really like the mini-business plan and so, you know, my -- I guess my questions would kind of evolve around that.

But to answer your question, Mr. Eaton, I'm not sure we could generalize, but because we have a loan program, that's what we sell to people, we get a lot of inquires for a lot of different types of financing. And, you know, we work with your staff even to try to identify those other options when we can.

COMMITTEE MEMBER EATON: And I appreciate that. And I wasn't looking for a hard and fast answer. But what I'm looking for mainly is to people who are on the streets is that if you go down from four to really two and one, do you come up against the situation wherein there is a business that requires a lot of capital to get up and going -- as which I think 1 and 2 can provide -- that because of our narrowness of a loan program, we have a cap on it. And I think that's what we're trying to look at is what's the breadth of experience. We're not looking for hard and fast answers here. But I think that's part of what the leveraging was is that, is there a right mix? Is it one versus, you know -- or is there a mix of some of these? Are we coming across, you know, in the E-waste or in the conversion technology area where these are capital intensive to get up and going? I mean -- I'd liken it -- yesterday as I was sitting there, it was like if the Board moves to around two -- and we're like venture capitalists in some ways, you know. I mean -- so I'm just trying to get some sense.

MR. DAVIS: You know, I think three and four are approaches that have been around. And we can all understand that. One and two -- I got to tell you, I mean I read through this -- I'm still trying to figure out what a CDE and a CDFI and -- you know, I'm going to have to read that five or six times, look at the regs and probably talk to some people.

One thing that the Association has done is had some initial discussions with CALED, the California

Association for Local Economic Development. And I think anything we do in this area would benefit from us having William Shell and some of those people sitting there with us and understand what's the utility of that. When you start -- when you start targeting money to lower-income communities, it has -- it begins to lower the utility for the overall program. But it probably opens some opportunities in those communities that might be wholly appropriate. But is it going to be the same -- it won't be the same program.

So you know, we're familiar -- and I'll let Steve and Leslie chime in -- but we're familiar with three and four. We can probably speak to that.

I wouldn't even want to begin to talk about one and two right now, because it's hard for me to grasp the detail of it or even the availability of it. I know they're new programs and I know sometimes it's good to get involved in a new program. But I had experience years ago with new programs, you know, spent a year, year and a half waiting for the regs to be final. And suddenly Congress decided, you know, "We're not going here." I've seen that happen too. Sometimes though you can get involved and write the regs, you can get involved and shape the program the way you want it.

But I don't know.

MR. La TANNER: I would just add though, the new market tax credit is new. Nonprofit CDE's and the CDFI's have been around for about 10 years. CRF did look at the portfolio, and 62 percent of the loans we've made, 109, were to companies in low-income communities, that had that first leveraging option been in place, they would have qualified. Of that 10 -- of that 62 percent, 10 percent of those low-income communities have a disaster-type area.

MR. DAVIS: And what I'd ask is whether this money is really intended to put funds into communities that have problems even accessing capital. And, you know, the history of lending and, you know, especially the very low-income communities, is that the money's just not available. You don't see shopping centers in a lot of those communities because nobody wants to take the risk with their own funds. And the banks are -- you know, there's that red-lining practice that existed historically that no longer exists. You know, this may be a way to address that and it certainly might be appropriate in some of the zones. But, you know, I think the intent is probably to get market -- even to get any money out there at market rate or a prime plus.

So, you know, maybe you can blend. And that would be one question that I would ask, whether you could blend your money. If your money went out at five percent for a 75 -- or 25 percent of the project, and the market rate was at 9 percent, then you come in a little below market rate by co-lending your money on the same project. Which is in effect what you do, you do up to 75 percent of the project. So there's always some other lender in there or some other source of funding in the project.

And I put together a really successful program where we hired a financial institution to initiate and co-lend. And our money -- we were able to set our rate at levels appropriate to the project. It was something that HUD was experimenting at the time when they were looking for -- trying to do an analysis to the level of what kind of interest rate do you need here; and if it's below market, you can come in with the public money and set an interest rate that would be appropriate to the project. I know that was one of the things we talked about in our working group, where maybe you don't have a single interest rate, but you have, you know, different interest rate options given the different needs of the company or the project itself.

CHAIRPERSON JONES: And I think that's one of the things that we have to see in the agenda item, because when we had our working group -- even if we sell the loans for 17 million, 20 million, whatever we have, in all likelihood that's all -- that's going to be all we're going to have.

So -- because this Board and the state of -- I mean I can't speak for what's going to happen a year or two years. But I think this Board's going to be pretty hard pressed to make a $5 million contribution to RMDZ out of our normal IWMS. That's why we're doing this process.

So when we start talking about, you know, how do we stretch the dollar, that's really what we talked about when we started this thing, was what are the leveraging options so that we can take $17 million and try to have an $80 million effect on the recycling markets, you know. I don't care if we never build a supermarket. But I do care if somebody is going to build a plastics recycling facility or an end-use that can use our collected plastic.

And so I'm hoping that what we're talking about here is what are the enablers for us, you know -- enabler meaning we have a fund balance today that's got X amount of millions of dollars in it, with projected commitments at 2.9 percent interest, and we eat up 8 million bucks in maybe four projects, and then we have zero money; or do we take that $8 million plus the sale of the loans if the Board determines that's what they want to do and take that $25 million and say, here's the menu: Three million can go to loan guarantees, enabling unbankables to borrow $12 million worth of material -- or worth of money, this much can go to here, this much can go to there.

And, no, there may never be a lower -- a SMIF rate again if the Board determines that's something they want to do. Because the option in my mind is pretty simple. We can give Smith and expend all of our money and the program ends. Or on the repayment schedule, which was slated for 3.5 million a year at current rate -- isn't it 3.5? So you take a million out of that, you're looking at 3 over the next 3 year period, right? Three -- three two. So you got three two, you know. And that's what I'm hoping, this tool will help us do. And that's what's important to have the RMDZ guys here for -- the zone administrators, because if we're looking at how do we keep this thing going, you know, how do we -- and Danny had to do an awful lot of work to even get, you know, the ability to do some of this stuff when he was the Chair. I had a member yesterday tell me we should do more CPC of state financing. I told them that when this administration took over they had -- they had only wanted to put about $40 million out of billions of those funds into environmental stuff. And it was Eaton that went in and talked to Angelides and others that got that number jumped up to about 90 million that year so that facilities could be built.

That's a revenue source that we can use. But it's only going to be for specific types of projects.

So, you know, I want to hear from you guys, that if you think the only way that you can sell a loan is at a 2.9 percent rate, then I don't think we have a program. We don't have my vote, okay, for this.

MR. DAVIS: And, you know, 2.9 is obviously -- it's a bit of an aberration. But the below market is I think what -- below market has some resonance, whether it's -- you know, whatever is. Now, you know, when nobody's -- when nobody wants to borrow money, you know, that's going to drive you down to 3 percent. But the below market is what really helps us. And I think I've heard that across the Board.

CHAIRPERSON JONES: Okay. But, John, what I'm saying is, if you look at all of these options -- that are not below market, none of them -- do you want this to be a two or three-year program or do you want it to be a sustainable program? That's the input I want to hear from you. Because that's the choice. It is an "either/or." It's not a "let's see what happens," right? I mean I think it's an "either/or." Maybe others say it can be a blend. But every time you blend, you're taking dollars out of that pool, that enabler.

Okay. So that's what I'd really like to hear some discussion about, because -- is that --

COMMITTEE MEMBER EATON: That's a fair statement.

CHAIRPERSON JONES: Is it fair: You know, I mean -- because that's what's going to help us with figuring out how we're going to put this program forward, you know.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: Let me take a crack at that, and then I'll get into my just general comments as well.

I see this as -- what's before us, there's two major distinct points. I think the loan sale is important to raise cash for the program. And that where we were in the task force is we were looking at a short-term shortage for the program to operate.

And the other discussion is: How shall the program operate? What kind of products should it have? And that's also inherent and deliberate in what Milken has given us, and that's kind of in my mind the second question.

The re-infusion of money into the program I think has become more critical. And I think the loan sale and the affirmation of the Milken report on that point is very positive. Because, as I have said in separate discussions, more face-to-face with Member Eaton actually, about what is the future of the RMDZ program? We face the statutory limit on the loan program of June 30th, 2006.

We have 14 out of the 40 zones now facing renewal and needing to renew or decide whether to renew their commitment to the program by spring of next year.

So in that context, I think a loan sale represent -- a bulk loan sale representing a reinvestment in the program, so that we can go back, in my case, not to my recycling department that thinks RMDZ is cool, it's great, but to my economic development department and say, "Here's the signal from Sacramento, that we have a medium range future."

Okay. And then I think we need to talk about what Milken is saying about "have different products for different types of borrower." And because this chart on that line that you identified -- Jim identified the primary type of financing -- I'm not a finance wizard of, you know, 20 years' experience, so I'm gathering this stuff in -- but as I understand it, first of all, the history of the RMDZ program I think is pretty much all senior debt, or it's been pretty much all well collateralized companies coming to the program because it has a lower-than-market interest rate.

I mean when we look at what some of the feedback from the borrowers were in the report, it was, you know, high collateral requirements, don't allow me to use my house as collateral. So it's not of a free-wheeling, high-risk type of program. And what I hear the consultants saying is you should have a product for high-risk folks.

And I think the overlay for the Waste Board's mission there too is: What materials are being diverted? How many? Is it an innovative process? As opposed to if it's a well-established company that's doing a technique that's well established. Well, certainly; maybe we don't want to give them 2.9 percent financing to expand their business that's not really charting any new territory and keeping a new material out of landfill.

So the mantra is we need to do the bulk loan sale to complete this process. We played by the rules. We went -- we did the task force. We did the study. The study says clearly the way to reinvigorate the program financially is to do a bulk loan sale. And then I think we buy some time to say, "How shall the program operate?"

I think the nice symmetry there is that we are, as Board Member Eaton has pointed out, we're at a point where we have to approach the Legislature and we have to have a plan. And I think nationally when Victor Hoskins tells us, "Well, you know, there's nothing like this anywhere else across the country," you know, when we -- when we go to trainings and we yell at each other -- and he says, "You know, this is really a unique and forward looking program. There's nothing like it anywhere else in the country."

But I would point out that when it was passed, nobody knew what it was going to be like. You had lots of jurisdictions competing to be an RMDZ because it was a status thing. You've got the City of San Jose, for instance, is an RMDZ and they don't have any capacity for industrial land.

So it's an opportunity for us to take a look at how to remake the program, I think, as we approach this legislative reauthorization possibility, as the zones talk about renewing their commitment, you know, do they want to continue, and use the feedback in the report as well to say, "What kind of products should we have for what kind of borrowers." So I'm not sure I'm at "either/or" so much as having these different products and not a one-size-fits-all product.

I have other comments, but that's my main response to that question. And really to reinforce it, I think we need to do a bulk loan sale to rejuvenate the program on the street.

CHAIRPERSON JONES: And I want you to finish your comments. But in response to that, when I'm saying "either/or" is, one of the things you just said was "Let's do the loan sale and then let's call time out," right, and figure out what we're going to do. So if we have $25 million sitting there --

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: -- buy some time.

CHAIRPERSON JONES: -- buy some time. And we only have one product to sell, which is our loans. And you're telling me that in that time $10 million worth of loans can come in here and eat up 10 of the $25 million at a 2.9 rate while we're trying to figure out which of these menu things we're going to put together, doesn't seem to me to be an option I'd be comfortable with.

I'd be comfortable with the loan sale. But I'd also be comfortable with trying to figure out how much of this menu we want fulfilled at the same time. You know what I'm saying? You know what I mean? I don't want to lose -- I don't want to go into a time out and take the risk that we get $10 million worth of potential projects that's going to eat up the capital that we're going to be -- that's going to really kill us long term because we're not going to be able to take advantage of some of the option here. That's all I'll saying.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: I guess when you talk about taking a time out or -- I understand what you're saying. But we -- we're also going to have to educate ourselves and we're going to have to educate the borrowers that, hey, it's not a one-size-fits-all program anymore.

The good news is it's going to be here till 2010 or beyond or whatever -- whatever kind of window we're going to try to create, and this is our strategy to have it be sustainable. But if it's not sustainable in the current structure, so therefore -- you know, these are the new rules. And have them be applicable to the real world, as simple as possible, but not as simple as they are now.

CHAIRPERSON JONES: Okay. That's cool. I mean I got no problem with that, Steve. You know what I worry about, is delay as easy thing to do around here. So if you pull the trigger on the loan sale and delay the formulation of the plan, you end up with eating up your assets. You know what I'm saying on that? That to me is scary.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: But the context of the way we got the Milken report was: The task force asked the Board to do a loan sale. And the Board said, "Not too fast." So that's kind of where I'm coming from, is the organizational capacity to make these changes to do both the bulk loan sale and the menu.

So --

CHAIRPERSON JONES: That's fine.

DEPUTY DIRECTOR WOHL: Can I make a quick comment?

Just for your understanding of this chart, the very last line, the RMDZ history, is an indication that Milken went out and looked at our loans that we've put out there and said, "This percentage fit this category."

So although you're kind of saying the bulk of what we do is senior debt, 48 percent, in their mind is, and 38 percent could have fit a loan guarantee and 14 percent could have fit one of those two. Just to give you an idea of that perspective. So that, you know, we do have some loans that fit these other categories.

MR. DAVIS: I have a question. Is that chart the staff analysis of the Milken report?

MR. La TANNER: Yeah, that is staff prepared, not by Milken.

MR. DAVIS: Because I think part of -- I look at the primary loan interest rate under the loan sale at being market interest rate as a prime plus. But when I looked through the Milken report, I didn't see that. In fact I saw them continue to talk about a below market rate on -- the existing programs. So I was confused.

But that's not really the Milken recommendation, right?

MR. La TANNER: Right. This table is my conservative interpretation of Milken. Milken did not contact CRF or any company that would be interested in buying loans from us. And my conversations with CRF is if they're going to buy a loan from us, it's going to be market rate.

CRF, if you actually -- Milken, If you read through that report, they're actually proposing that all four of these leveraging options can make all four types of loans. They can all do deferred payment, they can all do below market rate. And that's not true.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: Interest to me as well.

MR. La TANNER: But that last slide, the RMDZ history Loans Tap went through the 109 loans and recategorized them. That the actual history of 109; 48 percent were well established companies; 38 percent were expansion.

But Steve has a good point though. All of those loans, all were well collateralized, or at least at inception.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: Right.

DEPUTY DIRECTOR WOHL: The other thing I think we need to remember is that the Milken study looked at a loan sale, one sell at a time, selling each loan. And that's where you get that market rate issue too. They did not really go into the bulk idea. We kind of added that as --

because we knew that was something the Board was interested and that the ZA's were interested in. So we -- that's not clearly represented there, I don't think, on that chart.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: That's right. It says senior debt for primary type financing, because it has to be a bankable deal to have an immediate resale.

DEPUTY DIRECTOR WOHL: That's correct.

And they don't want to buy it unless they can make some money on it. So --

MR. DAVIS: Well, they had three different types of loans in their -- the mini-business plan, the Appendix 3. And one of the three was below market, the other one was above. And then I'm not sure what the third one was, although I suspect it was probably above market.

So you may -- at the end of the day you may the end up in that category being a market rate on the overall. And I think that's -- that's one of the suggestions that I think we had in our working group was that you need to look at the whole picture and what the net effect is. 2.9 is the rate now. I don't know what is the -- what is the prime, at 5 or --

MR. La TANNER: 4.75.

MR. DAVIS: Yeah, I mean it's a function of who's borrowing. And if nobody's borrowing and all the interest rates are down, your rate is down. One of the things that I know I had told Milken, and I think it was at least in the summary of the comments, is that it would be really -- I think the CIWMB should look at how frequently you set your rate, whatever that rate is. If you tie it to prime, let it flow with prime. Doing the -- you know, setting it on that SMIF rate is probably not -- you know, for a business loan program it's convenient, but it's probably not the most responsive.

If the prime rate is that low and you're, you know, a point or a point and a half below the prime rate, I don't know that that's such a bad place to be. It's just the prime rate's low, and it's low because nobody's borrowing, you know. And you should go up when that goes up. You shouldn't be at 2.9 if the prime's at 7 or 8, you know, absolutely. And that's one thing that you probably ought take a hard look at is how frequently you reset. If you want to tie it to a prime rate, you know that would begin to make sense. And maybe rather than a fixed spread, it would be a factor. It would be, you know, a 20 percent -- you know, a 20-percent discount or something tied to the prime rate, which would put you maybe where you want to be.

But I know when I looked through the Milken --

this Appendix 3, they actually suggest different rates for different types of loans. And in our case I think the issue would be how we explain that to people so we know going in what, you know -- we don't raise expectations that they're going to get a below market but they really -- they don't need it. I don't any problem personally if someone doesn't need the below market but they -- you know, they're here for another reason, I don't have a problem with that. But it is the way that we get people's attention. And it's like tax policy. I mean you use those incentives to get what you want.

I thought, you know, maybe for the next year, I had made a suggestion during the working group, that you look at what do you want to do for next year or two? If you want to focus on food waste composting businesses, you might incentivize those businesses. And rather than a, you know, one percent below prime, you go one and a half or two percent below prime, or that's the one that you go below prime on. And if it's somebody who's coming in, you know, doing something that's pretty well established that -- you know, they may not need it. But if you want to get somebody out there, you use this as a financial incentive just as you do with tax policy and you say, you know, "We want you to do this and here's what we're bringing to make you do it," and not necessarily just say, you know, nothing below prime or nothing below market.

MR. La TANNER: If I could just explain this slide for a second.

What we did is we went into Excel. The blue line is the prime rate. And the prime rate can change as often as it wants, any day, any month, any hour. The red line is the Smith interest rate, which only changes in January and July.

So this starts back in June '93 when we made the first loan. You can see the red line, being the SMIF rate, always has been below the prime rate. But if you look at it, it pretty much -- the SMIF rate -- does fluctuate as much as prime. It just -- there's a six-month delay.

Where the two lines cross on the right was right after September 11th.

MR. DAVIS: And, again, the 2.9, again, it's a number. Yeah, it's certainly a low number. I'd love to have a mortgage at that number. But it's a number that reflects the active. I mean, if nobody wants money, pretty soon you start paying them to take the money. And then -- we're not there yet, but that's the extension of it. But it doesn't stay there.

And I think -- I had one experience with a really good borrower who I tried to convince to use us. And they did use CPCFA. And they took a floating rate. And, you know, that floating rate was way below. And, you know, that could be -- and that's something I think a lot of businesses are used to. You could tie a floating rate to Smith, you know. And I think some of these businesses would understand that and rather than lock you in at 2.9 percent. Or you could tie it to, you know, whatever index you want to tie it to.

But I think the need to reset the rate, particularly in these kind of markets, is, you know, it's pretty clear. And I know -- you know, we get concerned when you're at that little line above it. But we're also -- I'm concerned about it being below because I think -- I agreed with Mr. Jones earlier about the, you know, financing land, you know, did it really generate jobs? And that's one of the things that, you know, you asked, what did it really do, what kind of performance did you get back from it? And, you know, some of the circumstances he mentioned, you know, it was hard to say that was a good deal. But there are times when you want to do land, so, you know, who knows.

FRESNO COUNTY RMDZ COORDINATOR KLINE: I don't come from a community development background. I'm in the trash side. And so a lot of the intricacies of the financing are things that I have only -- what I've learned through this program.

As a marketing person trying to market the program, the uncertainty of it is has been the biggest problem for me. I'm very concerned about trying to market something and there's not going to be any funds available. And to put my time and my community's money into marketing a program and there aren't going to be funds available is something that my boss is very reluctant to do, and I think that's appropriate.

So I'm looking for some comfort zone here that this program -- there is a commitment and there is going to be funds available. No matter how much money you put into the account, I know there will never be enough. So I'm clear that we're going to have to fix on a figure that's going to be something that we're going to have to work with and work within. And there are going to have to be more criteria for the selection of the loans that we give, given that we have a limited amount of funds. That's something we didn't experience with the onset of the program because we couldn't generate enough loans to even touch that amount of money. But we're now talking about doing a big marketing program. And I'm concerned about putting time in if there's not going to be money there.

And I see the loan sale as a way to allow us more time to figure out how we're going to manage the program and how we're going to increase the sources of revenue for it. And if we have 8 million left and we do four $2 million loans in the next six months, I'm going to have to spend my time on other programs.

And we're going to lose a lot of momentum and a lot of credibility and a lot of networking that I've been doing for the last 8 years; you know, is all going to go away and all that investment will be lost as far as my jurisdiction's concerned. And that concerns me.

And that's why I am partial to having the loan sale or partial loan sale, so that there's a stable amount of money in there, within limits, so that we can address some of these other issues and have time to do it without losing all that I've invested in all my jurisdiction. We've invested a lot of time and money in this program from our end. And we don't want to see that lost.

COMMITTEE MEMBER EATON: Well, I think that at least -- and I'll just speak for myself -- I'm not sure in my own mind, you know, which is the way to go. I think there is a consensus, doesn't matter which side of this dais you're on or whether your staff or ZA's, that there's a commitment for funds. The question then is in what form does that take. And that's the critical question, you know, because it kind of flows from there. And that really is a difficult question, I mean -- because we're in that arena. And I've think used the analogy before. If I go and build a gymnasium, I can say I built that gymnasium. But if I go out and say I created a hundred jobs, someone kind of says, "Oh yeah. Where?" I mean -- you know what I mean? Because economic development has that sort of intangible aspect. And that's what we're all grappling with.

And so, I don't think at least from our standpoint that the loan sale is either in or out or anything. It's just, okay, how do we get the program to be sustainable, and then what form shall that take? Is that all one or is it a variance? Not only of these four, but is there something else?

So I think -- you know, that's what I really want to kind of look at. And within that is a long-term view as well. And from that I will take my personal point of view, which is, at some point where we go into and we do that Berkeley eco-center, that would have been a perfect place for a different kind of funding mechanism by which we could have partnered with a particular geographical area to build something. But that takes a way from the other.

So I'm not sure if there is a mix or whatever. But I know there's a commitment for funds. The question is what form is that going to take? And obviously I think -- you know, I agree with you, the most easiest to recognize is that there's money in the bank, he can get that money, he can access it. The other stuff's a little more difficult. So I'm not sure what -- that's hard -- she was just saying that it was very hard that she gets asked by her boss, you know, is there a commitment on funds? And if so, you know, where are those funds? And otherwise they're going to put her on other tasks.

And I'm paraphrasing here, but that's pretty much what was kind of -- you know, because he or she, your boss, is looking for where you get the most bang for the buck from your work product. That's understandable.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: As far as the -- you know, look at the long term, I think --

COMMITTEE MEMBER EATON: But those are policy questions when I say long term. I'm not saying that -- I'm just saying that's kind of where you look at and where you can kind of go. I mean do we need to go to the next stage or are we still sort of stuck, you know.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: Well, one of the policy questions I ask myself about RMDZ is -- 939 ran till 2000. And then we have three 2-year extensions for cities to get to 50 percent. As Gary Liss will tell you, zero waste is in the strategic plan. But we don't have a detailed road map about where we go past 50 percent. But part of my evolution in the recycling field to end up where I am now, where I worked in operations and now I'm working in market development, is I think infrastructure for utilizing the materials -- I heard somebody else say the other day, instead of mandating 75 percent or 100 percent recycling, we should -- oh, it was David Huerta, who was here yesterday and not here today -- oh, he's behind me -- he said we need to figure out -- we need to construct an infrastructure to utilize the 50 percent that we've diverted from the landfill. Now, I mean that may discount the export market, but the point's well taken, that market development is -- it's more than just a 939 focus, but, you know, it's a long-term thing. It is abstract, you know, but -- and often times it's -- we're trying to convince market development -- or economic development colleagues that this program is important, that it's got a life to it. And so, you know, what's going to be the long-range future?

I do have some specific things I would like to see maybe -- or questions I'd like to ask regarding this September item, which are -- I mean the general question is: What research needs to occur between now and the September Board meeting? Patty and Jim have both kind of said that it's expected and Member Jones have said, it's expected this is going to be kind of revisit the issue for the whole Board, say what the conclusion of the Milken report is, ask -- you know, register our input, the ZA's, and ask the Board for direction on which options to pursue. That makes sense to me.

I would like to -- this broken record of mine -- is have the statutory authority of the Waste Board to conduct a loan sale to be clarified at that meeting or by that meeting, if it's still in doubt, as it seems to say in the staff report for the Committee yesterday.

CHAIRPERSON JONES: Our lawyers, by the way, said that that wasn't an issue.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: Great, great.

CHAIRPERSON JONES: When you raised it, I asked Kathryn at the break, and she said she didn't see it and thought that everything was okay.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: Okay. Good.

And then I guess we -- if the consensus or consensus from our end of table is to focus on and pursue the bulk loan sale, you know, how much, what scenarios? But clarify the steps required for that and the timeline for executing the bulk loan sale. I know we have to have a revisitation for the whole Board to say, "Here was the general issue. Here's what the Milken said." But we'd also like to maybe project, if we are all on that page, the bulk loan sale seems to be what's indicated as a first step, and have some specific milestones.

So that's it for me on that.

CHAIRPERSON JONES: I agree. Yeah, that's pretty close.

COMMITTEE MEMBER EATON: Yeah, I think first and foremost is getting at what is really some of the issues that we all as, quote-unquote, insiders who work with the clay or work with the dough, you know, are forming here. I'm not so sure that all of us are on the same level of expertise. And I think that's really going to be important, because what is important is that -- as you well know, statutorily the transfer was always made. And so when some of the Board members came on board, that money was always in RMDZ. And they didn't know really how it's going. Now, they sit on an admin committee, they're starting to look at budgetary work. Mr. Jones and I do not sit on that committee. That's not through any fault of our own. I sit in a rotational basis with Senator Roberti. But they are trying to get up to speed, as they should, with the financial mechanisms.

So part of, you know, the sensitivity is having them understand the choices that they're going to make so that there can be the consistency that you're talking about that's going to have the longevity.

And I think that will help. That will be part of the Board option. I think they will look a lot to Mr. Jones for his direction and leadership and burden that he has taken on to a large degree. Because, quite frankly, he did take it on because no one else would, including myself. And I'll say that publicly right now. And I remember the meeting that it took place. And so, you know, that's part of the reason why they have to sort of be looked at. And hopefully that can be worked out, and I think everyone will do it.

I don't know. I mean I heard for the first time yesterday after the Milken report. And today we're here and what needs to be researched. I'm hoping that they will have questions as well. I hope that they will have a lot of questions, because that will help us all get some clarity and some sense of what the direction is.

I can't go to each Board member -- as you know, I'm prohibited by law to ask them their opinion unless it's in a public setting. So that's part of the constraints that we have.

CHAIRPERSON JONES: Just one thing, Steve.

AB 939 actually is more than just the SB 1066 extensions. 2202 memorialized the fact that all cities and counties are still going to have to stay at 50 percent, still face the fines. And that the Board will, through the biennial review, review every city, instead of on five-year increments, on two-year increments.

So I like the idea, obviously, of requiring some market development as the next stage, as opposed to, you know, some arbitrary number; because clearly, that's what's missing, and it always has been. And that's why this program is so important.

But I just couldn't leave that. I take every advantage that I can when I speak to talk about 2202, that was actually promoted by the League of Cities, and which I am absolutely delighted that they put in there that this thing does not go away ever, because of the investment. We can't even think about market development if we look at an infrastructure at risk, for collection. 2202 made sure that that infrastructure never goes away, because there is no sunset. It's every two years from here on out --

And it actually allows us as Board members to give good faith effort findings for jurisdictions that haven't met a numerical number. It allows us to do SB 1066, knowing that we're going to continually see these jurisdictions in front of us from here on out until somebody writes a law that abolishes it. And that ain't going to happen.

So I had to take advantage of that, Steve, I mean and just clarify it, because it's critical. I wouldn't invest a nickel in an infrastructure that was going to go away. And we invested millions and millions of dollars when I was at NorCal to provide -- and at Cal Sierra to put infrastructure together. But I -- just keep going with your questions, I mean -- you know.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: Well, there really is only one more.

The three and half million dollar contribution -- the assumption of the three and a half million dollar contribution from Waste Board, I know from my look at the -- since I came back to earth and started doing RMDZ work after the CRRA conference in Oakland, at the new spreadsheet showing kind of the historical timeline from '96 and then it budgeted into the future for the loan program. My specific question I guess is is the three and a half million, is that a base line number for principal and interest payments primarily or -- it also shows that there was an actual appropriation from IWMA budgeted for this now current fiscal year. So if Jim or anybody else could just clarify, what is three and a half million contribution? Or was that just something given to Milken in the scope of work to say, "This is the amount money we think we could muster if we could triple it and find a way to triple it" or -- anybody who can clear any of that up would be great.

DEPUTY DIRECTOR WOHL: Trying to make it bigger for you, I think.

Basically -- I'm trying to find it on there -- it's the remaining dollars that we would have on an ongoing basis. So it drops down -- from having 10 million every year, it drops down to only having 3.5 at a point in time. And then eventually it does go up, but very little. And so we were just saying if we got to that point, how -- what amount of money could we really have in the account to leverage. And it does drop as low as 3.5 at some points if we don't do the loan sale or any of these option. And I believe Jim can answer. But that money is from loan receipts at that point, right?

MR. La TANNER: Well, it's from a combination. In the last year out there, 2005-6, there's 3.4 million available for a loan. So we just picked, you know, on this one 3.5 million. We know there's always going to be 3.5 million for the next four years. It's just a base line number. It's not to say we're going to put that much in or that little in. If we need more money in, we can look at it.

One thing I want to point out on this is, last fiscal year that we just completed we had 10 million available for loans, but we only were able to make two million due to a lack of applications. So we finished the 2001 -- 2000 year and began this one with 11 million in the account. Now, this year the State budget -- you know, hasn't been passed yet -- what's in the State budget is a 2 million transfer from IWMA, and we don't know if that's going to happen. We also have tire funds of 2 million. So if we start off with 11, assuming the budget's passed as presented, there's 15 million in there once the budget gets passed if, you know, it gets passed the right way, that we start the year off with. So we projected, okay, well, let's do another 10 million in loans. And if we cap it at 10, that still leaves 6 million in the subaccount at the end of this year, which rolls over. Next fiscal year 2003-2004, we'd like to do another 10 million in loans, plus 2 million in tires, drops the subaccount down to only 1 million left. At that point the following years you're dependent upon repayment of loans to be able to have the money to actually do it.

Now, the leveraging options are going to take some time to implement. You know, it's not an overnight thing. And this year we didn't do 10, we only did 2, so that's 8. There's like 20 million between this year and next if there's some leveraging options that can be implemented before we actually make the loan sale. The timing for a loan sale is probably 9 to 12 month thing. If we go to the Board in September and if we have an implementation plan back to the board by November for December, for example, we'd do an RFQ process, solicit a due diligence, you're looking at least 9 to 12 months for a loan sale. But there is money in that account if one of these, like the loan guarantee, for example, seems feasible and could be done, or one of the others.

CHAIRPERSON JONES: Hey, Leslie, thank you for all the help. I mean, seriously, in front -- I mean all the work you did on the task force, all the work you do at the RMDZ's, and then your participation today. We appreciate it.

And thank you.

FRESNO COUNTY RMDZ COORDINATOR KLINE: Thank you.

MR. La TANNER: The last point I'd like to make on this slide is, most of the drain has stopped. You know, there was money in the subaccount, so it was appropriately taken out for other market development purposes at the time.

We still have the project recycle buy-recycle through a BCP, continuously funded. It's from the subaccount at 916,000 per year. Eventually a BCP is going is going to need to be done to transfer that, to not have it come out of the subaccount. There's 4 million right there in the next four years that if it was funded from IWMA, not that IWMA has money. Also that bottom line, row 28, the special environmental program, circuit prosecutor is one of a pool of funds that's coming out of the subaccount. The money goes up to Cal EPA. And there are several sources they accumulate that at. You know, if those two could stop, there's, well, 4 million -- 4, almost 5 million that could be saved. But I'm not sayings IWMA's got the money to fund those either.

CHAIRPERSON JONES: Prior to anymore comments, Mr. Eaton has got to get to his other meeting. I think he hung around actually about 20 minutes longer than he was supposed to, but -- and we appreciate that.

Thank you.

OAKLAND/BERKELEY RMDZ COORDINATOR LAUTZE: Thank you.

COMMITTEE MEMBER EATON: And I think, you know, it's going to be process. The best advice I can give to all of us -- and I don't single out staff or ZA's, or Board members -- is that we come best prepared to really look at what options we have and try and use our best thinking and put forward to some degree, yes, our own sort of past experiences, but try and look ahead in I think understanding these numbers. And what I would look at is -- this chart for me was even more instructive just recently, like in 10 minutes ago, just to kind of see the flow of the monies, because that really is the key component here, as we go through. And I think that's what some of my colleagues will be looking to, Mr. Jones and myself, really is what is the flow, I mean -- and that's what they're going to look at. And if we can help bring them through that process, from all of our perspectives, we'll be all a lot better off.

CHAIRPERSON JONES: And nobody knows the flow of money and budgets better than the guy to my left.

MR. DAVIS: Are we going to have a meeting -- a meeting with zone administrators in September? I know there was some discussion about trying to do another meeting.

CHAIRPERSON JONES: Yeah, we are.

MR. DAVIS: A broader focus, but I think a lot of things that --

CHAIRPERSON JONES: Well, we had asked -- well, Patty Wohl and Jim La Tanner and Corky and John Smith and all those folks came to us and said, you know, "Here's what we want to do." The first meeting was this meeting, to give you guys a chance to have looked at the Milken report and then be able to speak with -- and we had to kind of shuffle this around because Mr. Eaton did have a previous commitment and said he would still do this for a while. And that gives you the first cut of the apples, just like we got.

And then as we flush this out -- now, that next meeting is going to be after the September Board meeting. So we will as a Board have discussed this thing. We may be able to give staff further direction -- who knows what we're going to do. But That will be after the Board meeting so that we're delivering hopefully at least some -- not only what it is, what it looked like, but some preliminary direction or discussion from the Board. Which I think will help really make it a relevant conversation. And I don't remember where that meeting is. Is that meeting -- oh, it's here, it's in this building?

Okay. I wasn't sure if we were going somewhere or doing it here.

DEPUTY DIRECTOR WOHL: The other thing that I --

COMMITTEE MEMBER EATON: Santa Barbara, I thought.

CHAIRPERSON JONES: Yeah, I was kind of hoping. Actually I'm going to Santa Barbara for a tire thing.

See, ya.

Thank you, Mr. Eaton. Appreciate it.

DEPUTY DIRECTOR WOHL: The other thing, Steve, it provides us with is an opportunity to talk about the eligibility item that would be coming up in like November. We were hoping that would be in September. But because of all this stuff, we're delaying that. And that's an opportunity to say: Is the SMIF rate too low? Is the collateral -- do you want to change that? And this -- I think our discussion on this will sort of build into that and, you know, maybe we'll have a different perspective on that. We've tried to bring changes forward on that eligibility item before and people were, you know, concerned about those. But maybe when you see the bigger picture now in perspective to a market rate, maybe there is on option to have a slightly different rate that we talk about. So I think it will facilitate that discussion.

CHAIRPERSON JONES: You know, one thing I would ask is that -- everyone of these options has a consequence. So if we're going to talk about the SMIF rate, you know, whether we don't do a loan sale or do a loan sale, we need to know, you know, how long the program's going to last based on that, and what the repayment schedule is. At 2.9 percent -- I mean you've got $3 1/2 million in your projection from revenue when in fact it's 2 1/2 million. So, you know, you don't have, you know, that much money in those out years based on the Smith, do you?

MR. La TANNER: No.

CHAIRPERSON JONES: Okay. So that's an issue that has to be at least visually seen, because then the next option is if we sell the loans, do it with the pool of money that we have already, if we do this option, we have the potential to guarantee $12 million worth of loans a year, or so much -- whatever the number is. You know what I mean?

If we're going to do a sell of a loan for loan, right? -- We do a loan, then those folks do it and we have to service, whatever, what does that option look like, you know? And what's that rate going to be?

So I'm hoping that some of that will be -- I don't even know if it has to be in the Board agenda item as much as it does have to be part of the presentation as background to be able to enumerate and elaborate what those ramifications are, you know. I mean I'd love to borrow money at 2.9 percent. You know, I never minded giving it out at 2.9. I mean I sat on the Board when we took our points for an origination fee from 3 to 2 to 1 and a half to half.

I mean I was on the committee that did everyone of those, to try to move loans along.

But right now we're just a little bit -- I'm scared this program's going to end in two years. And that's not why we went through this exercise, you know. And If somebody doesn't get a loan because they got to pay market rate versus the Smith, maybe five other people do get loans. I mean that's part of the -- you know, what is the potential, you know? If we can lend 80 million versus 20 million, I'm kind of voting for 80, you know. And maybe they're not the first 10 that walk in the door. Maybe there's only 4 of the 10 that can afford it. That might be 4 more than what we would have had.

And that's one person's point of view. There's 6 of us up here, thank God, you know, and they may have other views.

Okay. Any other comments?

Would you like to -- oh, come on. You didn't come all the way up here not to say anything. Give us a little bit of your wisdom. I always like hearing from you anyway.

MR. HUERTA: David Huerta with the City of Fremont and the Zone Administrator for Alameda County -- Southern Alameda County Recycling Market Development Zone.

We're in a kind of a ticklish position right now in that we're looking at renewing our zone status, and at the same time all of this is coming down. So I've got to be able to explain to my bosses and justify the effort and expense of going through recertification.

We have 40 zones and we have a maximum -- a cap of $2 million on the loans currently. The 3 and a half million that's projected would not really work out very well obviously.

I'd like to see the loan amount maximized. I think that the loan sale is -- it looks like a good idea. I think that it probably would be a good -- a fast way of injecting money. Not immediate, but obviously a faster route.

I also think that, to echo what Steve had said in our earlier conversation, that we do need market, we need to concentrate on market development. Because you can divert as much material as you want, but unless there's something done with it, we're juggling and we're not really doing very much positive.

So I would -- I'm here to voice support to continue the program, to see it grow if at all possible. Because we need to reach a significant threshold, a point at which this particular program is a known entity throughout the State where people -- where it's commonly known, as opposed to kind of an odd thing that is here or maybe not going to be here.

So --

CHAIRPERSON JONES: Got you. It's not fair to you. We got a Milken report yesterday that we had in

Committee. We had asked -- the Board had asked a year ago or whatever, knowing that we had limited funds to come up with, not -- you know, not just the idea of selling the loans, but how could we leverage those loans. Part of the Milken report really unveiled for us for the first time that we probably have the potential of taking that money and, in cases where we're doing guarantees, which ties up some of our money, they can lend at a rate of 4 to 1.

And then doing some other leveraging, we may be able to see our dollars go 5 to 1, which would -- needs to be an argument or at least a sense of relief for you when you go back to your bosses if for no other reason to say that this Board saw an end to this program and now is looking at options to maximize its dollar. One of the -- if the Board so chooses to do that, one of the things you give up is the low, low, low rate. But one of the things that you do have is an availability of maximizing dollars.

So instead of it being a $10 million a year program, maybe it can be a lot more than that. And that would be availability for you. I mean, you know, Fremont and that whole area in Contra Costa County and Oakland and Alameda County has spent a lot of time. They're starting to enter into partnerships where they're really recovering a lot more material.

And while a lot of loans have come out of your places, there's a lot more there. And we'll hopefully be able to have some tools that you can use so that your clients can use, you know. The thing we may be giving up is the super low rate. But a lot of these people aren't that bankable to begin with. So if they get a rate at market, that still might be 6 percent less than what they could have gotten it for on the open market.

So we've got to -- that's the important part, is knowing in my mind what it is you really want to accomplish out of this thing. And it may not be -- for me it is keeping as much money in commerce as we can to keep promoting recycling businesses.

And to others it may be to get every start up in the world an opportunity to get 2.9 or 4 percent money. Okay. I don't -- you know, I'm not worried about the 2.9, 4 percent money. You know, if we can get that guy in, that person in, and at least get him access to money, he may -- that may be the difference between night and day. You know, we're assuming that person could get money. The guarantee piece of this may be the fact that he never had an option unless us giving a guarantee.

So, you know, I feel really good about the potential. And I'll tell you after the Board meeting how I feel about the reality.

All right. Any other comments?

Mr. La Tanner, you want to tie this up? Or we pretty much done?

MR. La TANNER: I would just add, when you read that Milken report, it does paint a very rosey picture. My agenda item with the table I had up there is -- you'll see is much more conservative. Based on our phone calls to the financial development corps., The CDE's, the CDFI's, you'll see a big difference between the two. Okay. The big unknown, what's not in the Milken report, is how much money does need to be put into each one of those options and what -- how much could be made available. The loan guarantee's easy because I used to work with that. The loan sale's are pretty easy because CRF is very willing to work with us and provide information up front, the other two. But what I like to about all four is its local community lenders, partially in the rural areas; or in northern California, it's the zones that may not have had activity before, but now have a local lending access to the capital if we could partner with them.

What I'm hoping for in September is -- we may not have all the figures available. If the Board clearly doesn't want to adopt one of the leveraging options we can knock that one out and look -- and concentrate on the other three. It's not asking for any allocation of money at that time.

What I'm hoping for is for the Board to approve staff looking at all four and coming back November, December with an actual implementation plan, knowing what the figures are. Then the Board can decide if they want to really do it. And then if assuming you want to do a leveraging option, we have to go out and do an RFQ process and solicit offers from some of these companies, is what it really comes down to.

CHAIRPERSON JONES: All right.

MR. La TANNER: I see merit in all four of them.

CHAIRPERSON JONES: I appreciate it. I appreciate the ZA's coming up here and giving us their input. It's valuable. And we've appreciated the partnership. A appreciate Deborah McKee working with all my committees and on this workshop very selflessly. And thanks to all the folks from Waste Prevention and Market Development for all your work. And Thank you.

See you.

(Thereupon the California Integrated Waste Management Board, Special Waste and Market Development Committee workshop adjourned at 3:15 p.m.)

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, and Registered Professional Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing California Integrated Waste Management Board, Special Waste and Market Development Committee workshop was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said workshop nor in any way interested in the outcome of said workshop.

IN WITNESS WHEREOF, I have hereunto set my hand this 4th day of September, 2002.

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